

Attachment E

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.

The Commonwealth provides substantial funding to the States through both general revenue assistance and specific purpose payments.

More detailed information on the Intergovernmental Agreement and Australia's federal financial relations is provided in Budget Paper No. 3, *Federal Financial Relations 2014-15*, and at www.federalfinancialrelations.gov.au.

Overview of payments to the States

Payments to the States in 2014-15 are estimated to be \$102.1 billion, or 24.1 per cent of total Commonwealth expenditure for the year. This amount comprises payments for specific purposes of \$47.2 billion and general revenue assistance of \$54.9 billion.

Table 3.23 shows payments for specific purposes and general revenue assistance to the States.

Table 3.23: Commonwealth payments to the States, 2014-15 to 2017-18

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total(a)
2014-15									
Payments for specific purposes	14,019	11,505	9,735	5,477	3,229	1,071	774	1,062	47,225
General revenue assistance	16,824	11,853	11,704	2,298	4,955	1,914	1,135	3,189	54,868
Total payments to the States	30,843	23,359	21,439	7,775	8,183	2,985	1,909	4,251	102,094
2015-16									
Payments for specific purposes	15,151	11,387	10,567	5,424	3,660	1,139	773	1,094	50,488
General revenue assistance	17,685	12,638	12,644	2,407	5,261	2,104	1,205	3,421	58,291
Total payments to the States	32,836	24,025	23,210	7,830	8,921	3,243	1,978	4,515	108,779
2016-17									
Payments for specific purposes	16,593	11,824	11,346	6,025	3,461	1,093	821	1,059	53,522
General revenue assistance	18,282	13,263	13,842	2,480	5,684	2,151	1,251	3,605	61,487
Total payments to the States	34,875	25,087	25,188	8,505	9,144	3,244	2,072	4,663	115,008
2017-18									
Payments for specific purposes	15,984	11,345	10,961	5,866	3,422	1,082	825	977	51,476
General revenue assistance	19,281	14,168	14,514	2,747	5,890	2,200	1,302	3,691	64,673
Total payments to the States	35,266	25,513	25,476	8,612	9,312	3,282	2,127	4,668	116,148

(a) Total column may not equal sum of the state totals. There is no basis on which to estimate state allocations for a small number of payments, which are not reflected in state totals.

Payments for specific purposes

The Commonwealth provides payments to the States for specific purposes in areas that may be administered by the States. Payments to the States for specific purposes will total \$47.2 billion in 2014-15, which is estimated to represent 11.2 per cent of total Commonwealth expenditure in 2014-15.

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;
- National Health Reform (NHR) funding, which commenced from 1 July 2012;
- Students First funding, which commenced from 1 January 2014; and
- National Partnership payments.

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

Table 3.24: Total payments for specific purposes by category, 2014-15 to 2017-18

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total(a)
2014-15									
National Specific Purpose Payments	1,320	1,028	833	459	295	90	68	43	4,136
National Health Reform funding(b)	4,876	3,829	3,036	1,760	1,073	320	289	157	15,343
Students First funding	4,519	3,658	3,070	1,501	1,079	349	249	260	14,688
National Partnership payments(c)	3,303	2,990	2,796	1,757	781	311	167	602	13,058
Total payments for specific purposes	14,019	11,505	9,735	5,477	3,229	1,071	774	1,062	47,225
2015-16									
National Specific Purpose Payments	1,347	1,054	853	476	300	91	70	44	4,235
National Health Reform funding(b)	5,246	4,071	3,277	1,928	1,142	336	313	179	16,492
Students First funding	4,805	3,925	3,413	1,649	1,142	371	264	283	15,853
National Partnership payments(c)	3,752	2,337	3,023	1,371	1,076	341	126	588	13,908
Total payments for specific purposes	15,151	11,387	10,567	5,424	3,660	1,139	773	1,094	50,488
2016-17									
National Specific Purpose Payments	1,376	1,081	875	494	305	92	71	46	4,339
National Health Reform funding(b)	5,586	4,289	3,502	2,091	1,201	350	336	199	17,555
Students First funding	5,229	4,221	3,778	1,792	1,211	399	279	311	17,220
National Partnership payments(c)	4,402	2,233	3,191	1,648	743	252	135	504	14,407
Total payments for specific purposes	16,593	11,824	11,346	6,025	3,461	1,093	821	1,059	53,522
2017-18									
National Specific Purpose Payments	1,409	1,111	899	513	311	93	73	47	4,455
Public hospitals funding (d)	5,788	4,565	3,695	2,109	1,276	380	301	193	18,307
Students First funding	5,526	4,463	4,032	2,021	1,281	411	289	307	18,331
National Partnership payments(c)	3,262	1,207	2,336	1,222	554	198	161	431	10,383
Total payments for specific purposes	15,984	11,345	10,961	5,866	3,422	1,082	825	977	51,476

(a) As state allocations for a number of programmes have yet to be determined, these payments are not included in state totals. As such, total payments may not equal the sum of state totals.

(b) The efficient growth funding component of National Health Reform funding is indicative only. The distribution of efficient growth funding will be determined by the actual efficient growth in activity in each of the States.

(c) Includes financial assistance grants for local government.

(d) State allocations of public hospitals funding are shown on the basis of state population shares of total funding and are not adjusted for cross-border activity.

The majority of payments for specific purposes relate to National SPPs, NHR funding and Students First funding, and total \$34.2 billion in 2014-15, an estimated increase of \$3.2 billion on the \$31.0 billion the States received in 2013-14.

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 environment. Table 3.25 shows total payments for specific purposes by sector.

Table 3.25: Payments for specific purposes by sector, 2014-15 to 2017-18

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total(a)
2014-15									
Health	5,211	4,163	3,254	1,903	1,135	370	302	274	16,612
Education	4,771	3,820	3,211	1,569	1,127	364	263	335	15,475
Skills and workforce development	581	459	371	202	133	40	30	19	1,835
Community services	458	794	345	455	107	48	29	95	2,332
Affordable housing	513	349	453	325	129	34	23	146	1,973
Infrastructure	1,538	1,073	1,403	712	296	105	61	135	5,658
Environment	160	254	56	6	130	29	7	18	661
Contingent payments	4	4	75	..	..	..	..	..	83
Other(b)	783	589	567	305	171	81	59	40	2,595
Total payments for specific purposes	14,019	11,505	9,735	5,477	3,229	1,071	774	1,062	47,225
2015-16									
Health	5,519	4,320	3,405	2,011	1,180	419	322	319	17,494
Education	4,938	4,025	3,498	1,692	1,171	380	270	343	16,330
Skills and workforce development	585	457	371	203	131	40	30	19	1,836
Community services	506	410	326	235	115	36	27	95	1,754
Affordable housing	438	333	405	273	113	31	22	133	1,747
Infrastructure	2,198	962	1,934	697	653	133	37	136	8,028
Environment	182	289	72	4	128	22	5	9	712
Contingent payments	1	..	50	..	..	-	..	..	51
Other(b)	782	590	506	308	170	79	59	40	2,535
Total payments for specific purposes	15,151	11,387	10,567	5,424	3,660	1,139	773	1,094	50,488
2016-17									
Health	5,793	4,437	3,630	2,167	1,242	363	345	237	18,214
Education	5,243	4,241	3,800	1,800	1,220	402	280	358	17,356
Skills and workforce development	637	498	405	223	142	43	33	21	2,001
Community services	560	466	382	215	129	40	40	95	1,930
Affordable housing	443	339	400	251	109	31	22	211	1,807
Infrastructure	2,967	1,050	2,164	1,055	360	124	12	92	9,108
Environment	169	203	58	4	89	12	29	5	568
Contingent payments	-	-	2	-	-	-	-	-	2
Other(b)	781	591	505	311	170	78	59	40	2,536
Total payments for specific purposes	16,593	11,824	11,346	6,025	3,461	1,093	821	1,059	53,522
2017-18									
Health	5,992	4,721	3,829	2,186	1,322	394	312	222	18,978
Education	5,537	4,475	4,050	2,029	1,289	413	290	354	18,440
Skills and workforce development	478	377	305	174	105	31	25	16	1,512
Community services	685	497	403	233	136	42	73	89	2,161
Affordable housing	454	345	416	264	111	31	23	224	1,869
Infrastructure	1,978	251	1,405	653	257	78	10	30	5,668
Environment	50	64	32	-	26	10	30	1	213
Contingent payments	-	-	-	-	-	-	-	-	-
Other(b)	811	615	522	326	176	81	62	42	2,635
Total payments for specific purposes	15,984	11,345	10,961	5,866	3,422	1,082	825	977	51,476

(a) As state allocations for a number of programmes have yet to be determined, these payments are not included in state totals. As such, total payments may not equal the sum of state totals.

(b) Includes financial assistance grants for local government.

Part 3: Fiscal strategy and outlook

Total payments for specific purposes by sector and category (National SPPs, NHR funding, Students First funding and National Partnership payments) are shown in Table 3.26.

Table 3.26: Payments for specific purposes by sector and category, 2014-15 to 2017-18

\$million	2014-15	2015-16	2016-17	2017-18
<i>Health</i>				
National Health Reform funding	15,343	16,492	17,555	-
Public hospitals funding	-	-	-	18,307
National Partnerships	1,270	1,002	659	672
<i>Education</i>				
Students First funding	14,688	15,853	17,220	18,331
National Partnerships	787	477	136	109
<i>Skills and workforce development</i>				
National Skills and Workforce Development SPP	1,435	1,459	1,484	1,512
National Partnerships	400	377	516	-
<i>Community services</i>				
National Disability SPP(a)	1,395	1,449	1,506	1,570
National Partnerships	937	305	424	591
<i>Affordable housing</i>				
National Affordable Housing SPP	1,306	1,327	1,349	1,374
National Partnerships	667	420	458	495
<i>Infrastructure</i>				
National Partnerships	5,658	8,028	9,108	5,668
<i>Environment</i>				
National Partnerships	661	712	568	213
<i>Contingent payments</i>				
National Partnerships	83	51	2	-
<i>Other</i>				
National Partnerships(b)	2,595	2,535	2,536	2,635
Total payments for specific purposes	47,225	50,488	53,522	51,476

(a) Does not include National Disability SPP adjustments to achieve budget neutrality as this is still subject to negotiation.

(b) Includes financial assistance grants for local government.

Detailed tables of payments for specific purposes are provided in Annex A (available online). This Annex provides accrual estimates of Commonwealth payments to the States.

The Commonwealth provides funding under the Natural Disaster Relief and Recovery Arrangements (NDRRA) to assist the States with relief and recovery assistance following eligible 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 disaster reconstruction work or submitted an eligible claim under the NDRRA.

The estimated NDRRA cash payments are shown in Table 3.27 below (see Table A.8 in Annex A (available online) for accrual estimates).

Table 3.27: Estimated NDRRA cash payments, 2014-15 to 2017-18

\$'000	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
2014-15	109,551	156,625	950,000	788	3,167	99	-	-	1,220,230
2015-16	3,189	2,409	1,828,000	1,373	-	-	-	642	1,835,613
2016-17	-	-	82,000	-	-	-	-	-	82,000
2017-18	-	-	-	-	-	-	-	-	-

GST and 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 2014-15, the States will receive \$54.9 billion in general revenue assistance from the Commonwealth, comprising \$53.7 billion in GST entitlements and \$1.2 billion in other general revenue assistance. This is a 4.7 per cent increase in general revenue assistance, on the \$52.4 billion the States received in 2013-14. Total general revenue assistance to the States is estimated to represent 13.0 per cent of total Commonwealth expenditure in 2014-15.

GST entitlements have been revised down since the 2014-15 Budget by \$50 million over the four years to 2017-18.

Table 3.28 summarises GST and general revenue assistance payments to the States. Detailed tables of GST and general revenue assistance, including state shares of each payment, are provided in Annex A (available online).

Table 3.28: GST and general revenue assistance, 2014-15 to 2017-18

\$million	2014-15	2015-16	2016-17	2017-18
GST entitlements	53,710.0	57,200.0	60,390.0	63,630.0
Other payments				
<i>ACT municipal services</i>	38.0	38.6	39.2	40.0
<i>Reduced royalties</i>	49.8	51.5	53.7	48.9
<i>Royalties</i>	995.7	926.3	928.6	878.7
<i>Snowy Hydro Ltd tax compensation</i>	75.0	75.0	75.0	75.0
Total other	1,158.5	1,091.3	1,096.6	1,042.5
Total GST and other payments	54,868.5	58,291.3	61,486.6	64,672.5

GST

GST revenue variations since the 2014-15 Budget

Table 3.29 provides a reconciliation of the GST revenue estimates since the 2014-15 Budget. The reconciliation accounts for policy decisions and parameter and other variations.

Table 3.29: Reconciliation of GST entitlement estimates since the 2014-15 Budget

\$million	2014-15	2015-16	2016-17	2017-18
GST entitlement at 2014-15 Budget	53,710	57,020	60,440	63,810
<i>Changes between 2014-15 Budget and MYEFO</i>				
Effect of policy decisions	-7	-1	-1	-1
Effect of parameter and other variations	7	181	-49	-179
Total variations	0	180	-50	-180
GST entitlement at 2014-15 MYEFO	53,710	57,200	60,390	63,630

Specific policy decisions taken since the 2014-15 Budget that affect GST revenue are shown in Table 3.30. These decisions decrease the amount of GST revenue by \$10 million over four years.

Detailed information on policy decisions since the 2014-15 Budget are included in Appendix A.

Table 3.30: Policy decisions since the 2014-15 Budget that affect GST revenue

\$million	2014-15	2015-16	2016-17	2017-18
Indirect Tax Concession Scheme – diplomatic and consular concessions	-5.0	-1.0	-1.0	-1.0
Reintroduction of fuel excise indexation – change to start date	-2.0	0.0	0.0	0.0
Total GST revenue policy decisions	-7.0	-1.0	-1.0	-1.0

Reconciling GST revenue and GST entitlements to the States

Under the Intergovernmental Agreement, the States are entitled to receive payments from the Commonwealth equivalent to the revenue received from the GST.

However, GST revenue for a financial year varies from the amount of GST paid to the States for that year because of:

- GST revenues which are recognised on a Commonwealth whole-of-government basis, but not remitted to the Australian Taxation Office (ATO) by 30 June of each financial year, as the revenues will not be remitted until the following financial year;
- penalties, other than general interest charge (GIC) penalties, which are not included in the definition in the *Federal Financial Relations Act 2009* of GST to be paid to the States;
- the GST component of sales by Commonwealth agencies which has been collected by those agencies but which, as at 30 June in each year, has not been remitted to the ATO, because it is not due to be paid until the next Business Activity Statement is lodged; and
- a balancing adjustment to account for any variation in the previous financial year between the Treasurer’s final outcome determination, and GST payment advances made during that financial year.

The reconciliation of GST revenue and GST entitlements to the States is provided in Table 3.31.

Table 3.31: Reconciling GST revenue and GST entitlements to the States

\$million	Outcome	Estimates			
	2013-14	2014-15	2015-16	2016-17	2017-18
GST revenue	55,517	56,820	60,390	63,510	66,950
less change in GST receivables	4,123	2,838	2,922	2,848	3,027
GST receipts	51,394	53,982	57,468	60,662	63,923
less non-GIC penalties collected	276	260	270	270	290
less net GST collected by Commonwealth agencies but not yet remitted to the ATO	28	12	-2	2	3
GST entitlements to the States	51,090	53,710	57,200	60,390	63,630

Table 3.32 below provides information on the balancing adjustment relating to 2013-14 which has been paid in 2014-15.

Table 3.32: Balancing adjustment relating to 2013-14

\$million	Total
GST entitlements to the States in 2013-14	51,090.2
less advances of GST made throughout 2013-14	50,720.0
<i>equals</i> following year balancing adjustment	370.2

Distribution of GST entitlement pool among the States

As agreed by all parties in the Intergovernmental Agreement, GST payments are distributed among the States in accordance with the principle of horizontal fiscal equalisation, having regard to the recommendations of the Commonwealth Grants Commission. The calculations for the distribution of the GST pool in 2014-15 are shown in Table 3.33.

Table 3.33: Distribution of the GST entitlement pool, 2014-15^(a)

	Estimated 31 December 2014 population (1)	GST relativities (2)	Adjusted population (1) x (2) (3)	Share of adjusted population % (4)	2014-15 GST entitlement \$million (5)
NSW	7,572,549	0.97500	7,383,235	31.2	16,774.1
VIC	5,897,334	0.88282	5,206,284	22.0	11,828.2
QLD	4,775,457	1.07876	5,151,572	21.9	11,703.9
WA	2,630,068	0.37627	989,616	4.2	2,248.3
SA	1,693,119	1.28803	2,180,788	9.2	4,954.6
TAS	515,385	1.63485	842,577	3.6	1,914.3
ACT	390,762	1.23600	482,982	2.0	1,097.3
NT	247,997	5.66061	1,403,814	5.9	3,189.3
Total	23,722,671	na	23,640,869	100.0	53,710.0

(a) Total may not equal sum of State totals due to rounding.

The calculations for the distribution of the 2013-14 balancing adjustment are shown in Table 3.34. This adjustment has been paid to each State in 2014-15 following the upwards revision to the States' 2013-14 GST entitlements of \$370.2 million.

Table 3.34: Distribution of the GST balancing adjustment, 2013-14^(a)

	31 December 2013 population (1)	GST relativities (2)	Adjusted population (1) x (2) (3)	Share of adjusted population % (4)	2013-14 GST entitlement \$million (5)	2013-14 GST advances \$million (6)	Balancing adjustment \$million (5) - (6) (7)
NSW	7,465,497	0.96576	7,209,878	31.0	15,849.5	15,727.2	122.3
VIC	5,790,990	0.90398	5,234,939	22.5	11,508.0	11,426.1	81.9
QLD	4,690,910	1.05624	4,954,727	21.3	10,892.0	10,822.7	69.3
WA	2,550,874	0.44581	1,137,205	4.9	2,499.9	2,484.8	15.1
SA	1,677,250	1.26167	2,116,136	9.1	4,651.9	4,618.2	33.7
TAS	513,955	1.61454	829,801	3.6	1,824.2	1,809.5	14.7
ACT	384,147	1.22083	468,978	2.0	1,031.0	1,023.9	7.1
NT	242,573	5.31414	1,289,067	5.5	2,833.8	2,807.6	26.1
Total	23,316,196	na	23,240,731	100.0	51,090.2	50,720.0	370.2

(a) Total may not equal sum of State totals due to rounding.

Table 3.35 shows the distribution of the GST entitlement over the current financial year and forward estimates.

Table 3.35: Distribution of the GST entitlement over financial year and forward estimates

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
2014-15	16,774.1	11,828.2	11,703.9	2,248.3	4,954.6	1,914.3	1,097.3	3,189.3	53,710.0
2015-16	17,635.1	12,612.9	12,643.7	2,355.1	5,261.1	2,104.0	1,166.8	3,421.2	57,200.0
2016-17	18,232.4	13,237.9	13,842.1	2,426.6	5,683.8	2,151.1	1,211.3	3,604.7	60,390.0
2017-18	19,231.2	14,143.1	14,514.4	2,698.1	5,890.2	2,200.3	1,261.9	3,690.9	63,630.0

GST administration costs

States compensate the Commonwealth for the costs incurred by the ATO in administering the GST, including costs incurred by the Australian Customs and Border Protection Service, as shown in Table 3.36.

Table 3.36: GST administration budget, 2013-14 to 2017-18

\$million	Actual	Estimates			
	2013-14	2014-15	2015-16	2016-17	2017-18
Australian Taxation Office budget	698.6	688.5	680.3	526.0	512.0
less prior year adjustment	-11.0	8.2			
equals State government payments	709.6	680.3	680.3	526.0	512.0
less Australian Taxation Office outcome(a)	690.4				
equals Commonwealth budget impact	19.1				
plus prior year adjustment	-11.0				
equals following year adjustment	8.2				

(a) Estimated outcome for 2013-14 pending confirmation by the Australian National Audit Office.

The preliminary outcome for 2013-14 GST administration expenses of \$690.4 million differs from the amount paid by the States and the prior year adjustment by \$8.2 million. Once the audit of the outcome for GST administration expenses in 2013-14 is completed, the final adjustment will be incorporated into the States' administration costs for 2014-15.