

PART 1: AUSTRALIA'S FEDERAL RELATIONS

OVERVIEW

The 2017-18 Budget is the next stage in the Government's economic plan, building on commitments from the 2016-17 Budget and the 2016 election.

In 2017-18, the Commonwealth will provide the States with \$119.0 billion in total payments, including payments of \$55.9 billion for specific purposes like schools and hospitals and general revenue assistance of \$63.1 billion.

The Commonwealth will:

- provide fairer funding for school students, including an increase of \$18.6 billion over the period 2018 to 2027. The Commonwealth is committed to a long-term schools funding package which is needs-based, simple and transparent and will require reform and accountability improvements from the States to lift education outcomes;
- increase the supply of affordable housing by negotiating a new National Housing and Homelessness Agreement (NHHA) with State governments that incorporates existing funding from the National Affordable Housing Specific Purpose Payment (NAHSPP) and new funding for homelessness. The Commonwealth will contribute \$4.6 billion to the NHHA over the forward estimates period;
- make available \$300 million to remove unnecessary barriers to competition and regulations that hold back small businesses through targeted payments under a National Partnership on Regulatory Reform;
- introduce a new ongoing *Skilling Australians Fund*, with an estimated \$1.5 billion over the budget and forward estimates period, to train Australians for future skills needs; and
- support public hospitals through increased funding of \$3.3 billion between 2016-17 and 2019-20.

COMMONWEALTH FUNDING 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 \$119.0 billion in 2017-18 for specific purposes and general revenue assistance. This represents a \$3.2 billion increase compared to 2016-17. Total payments to the States from 2016-17 to 2019-20 have increased by \$5.8 billion since the *Mid-Year Economic and Fiscal Outlook 2016-17*.

Total payments to the States in 2017-18 are estimated to be 25.6 per cent of total Commonwealth expenditure and account for around 46 per cent of total State revenue. Commonwealth payments effectively support around 45 per cent of State expenditure, as shown in Table 1.3.

Payments for specific purposes

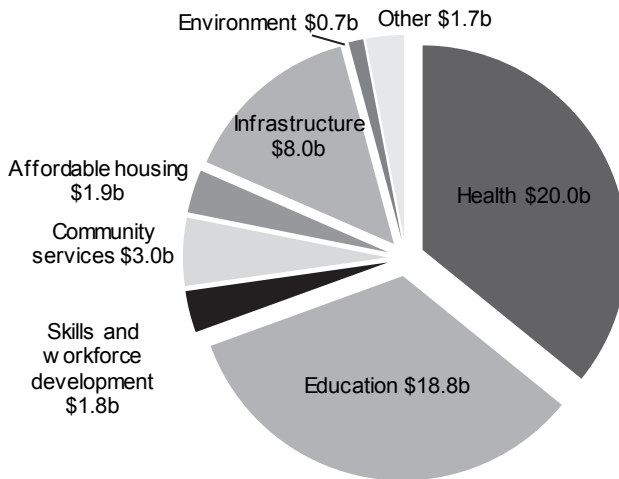
In 2017-18, the Commonwealth will provide the States with \$55.9 billion in payments for specific purposes, an increase of \$66 million compared with \$55.8 billion in 2016-17. Payments for specific purposes are estimated to be 12.0 per cent of total Commonwealth expenditure in 2017-18.

National Specific Purpose Payments (National SPPs), National Health Reform and Quality Schools funding are expected to total \$42.2 billion in 2017-18, an increase of \$2.3 billion from 2016-17.

National Partnership payments are expected to be \$13.7 billion in 2017-18. This includes new National Partnerships for Regulatory Reform and the Skilling Australians Fund.

Part 2 of this Budget Paper provides further information on payments to the States for specific purposes. Chart 1.1 illustrates estimated specific purpose payments to the States for 2017-18 by function.

Chart 1.1: Payments for specific purposes 2017-18, by function^(a)



(a) Total payments for specific purposes in 2017-18 are \$55.9b.

General revenue assistance

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

In 2017-18, the States are expected to receive \$63.1 billion in general revenue assistance, comprising \$62.3 billion for the GST entitlement and \$731 million for other general revenue assistance. This is an increase of \$3.1 billion from \$60.0 billion in 2016-17. General revenue assistance to the States is estimated to represent 13.6 per cent of total Commonwealth expenditure in 2017-18.

Box 1.1 of this Budget Paper provides information on Australia's system for distributing the GST among the States. Part 3 contains further details of general revenue assistance to the States.

Box 1.1: Australia's system for distributing the GST

The GST is distributed to the States so that each State has the capacity to provide its citizens with a comparable level of government services – such as schools, hospitals, transport, housing and infrastructure. This method of distribution, known as horizontal fiscal equalisation (HFE), is based upon the principle that no Australian should be materially disadvantaged – in terms of their access to government services – simply because of the State in which they live.

GST distribution is based on the GST sharing relativities recommended by the Commonwealth Grants Commission after assessing the States' relative fiscal capacities. This takes into account the many natural differences between jurisdictions – such as their population, geography, resource endowments and demographics. These differences mean that the States can face very different costs in providing services to their citizens, and can have very different capacities to raise their own revenues.

In 2017-18, the Northern Territory continues to be the major beneficiary of the GST distribution process. The high costs it faces in delivering services to a remote population, coupled with its relatively low ability to raise its own revenue, means it needs a relatively high level of GST per person to have the capacity to deliver services at a comparable standard to other States.

In contrast, Western Australia will continue to receive the lowest share of GST per person in 2017-18. Whilst the Commission's calculations recognise that Western Australia also faces high costs in delivering services across a very large State, this is more than offset by the very high level of revenue it can collect, particularly from mining royalties.

In response to ongoing suggestions that the current approach to HFE does not sufficiently recognise differences between States' individual circumstances, the Government has tasked the Productivity Commission with conducting an inquiry on the impacts of the current methodology used to determine GST relativities on national productivity, efficiency and economic growth. The Productivity Commission will report by 31 January 2018.

The Government has also said it will consider a GST relativity floor to provide more certainty on the minimum share of GST that a State can receive in any year. The Government will explore a floor once relativities return to more normal levels – this is not expected for several years.

Total payments to the States

Total Commonwealth payments to the States are shown in Table 1.1.

Estimates of GST entitlements for 2018-19 and later years reflect a technical assumption that each State's 2017-18 GST relativity is held constant for those years. The estimates do not reflect any attempt to project future GST relativities or GST entitlements.

Table 1.1: Commonwealth payments to the States, 2016-17 to 2020-21

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
2016-17									
Payments for specific purposes(a)	17,948	12,246	11,666	5,873	3,922	1,957	897	1,209	55,831
GST entitlement	17,216	13,632	13,955	1,950	5,934	2,259	1,129	3,165	59,240
Other general revenue assistance(c)	50	25	0	34	0	0	39	0	736
Total payments to the States	35,214	25,903	25,622	7,857	9,856	4,216	2,065	4,375	115,807
2017-18									
Payments for specific purposes(a)	17,544	12,472	11,916	5,979	4,274	1,237	872	1,285	55,898
GST entitlement	17,554	14,765	14,871	2,327	6,303	2,387	1,225	2,908	62,340
Other general revenue assistance(c)	50	25	0	28	0	0	40	0	731
Total payments to the States	35,148	27,262	26,787	8,334	10,576	3,625	2,136	4,193	118,968
2018-19									
Payments for specific purposes(a)	17,838	13,800	13,004	6,279	3,877	1,307	889	1,049	58,465
GST entitlement(b)	18,488	15,618	15,637	2,449	6,593	2,486	1,287	3,033	65,590
Other general revenue assistance(c)	50	25	0	27	0	0	40	0	670
Total payments to the States	36,376	29,443	28,641	8,755	10,471	3,793	2,216	4,081	124,725
2019-20									
Payments for specific purposes(a)	16,680	13,050	12,455	7,012	3,670	1,133	900	1,019	56,306
GST entitlement(b)	19,095	16,200	16,121	2,526	6,763	2,537	1,325	3,101	67,670
Other general revenue assistance(c)	50	25	0	29	0	0	41	0	655
Total payments to the States	35,826	29,276	28,576	9,567	10,433	3,670	2,266	4,120	124,631
2020-21									
Payments for specific purposes(a)	16,793	13,250	12,659	6,332	3,532	1,160	936	943	56,200
GST entitlement(b)	20,212	17,219	17,027	2,670	7,109	2,653	1,399	3,250	71,540
Other general revenue assistance(c)	50	25	0	31	0	0	41	0	662
Total payments to the States	37,055	30,494	29,687	9,032	10,641	3,813	2,375	4,192	128,401

(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) Estimates of GST entitlements for 2018-19 and later years reflect a technical assumption that each State's 2017-18 GST relativity is held constant for those years. The estimates do not reflect any attempt to project future GST relativities or GST entitlements.

(c) 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 State totals.

For 2017-18, total payments to the States are estimated to be 6.5 per cent of GDP. Payments for specific purposes are estimated to be 3.1 per cent of GDP and general revenue assistance is estimated to be 3.5 per cent of GDP.

Table 1.2: Total Commonwealth payments to the States as a proportion of GDP

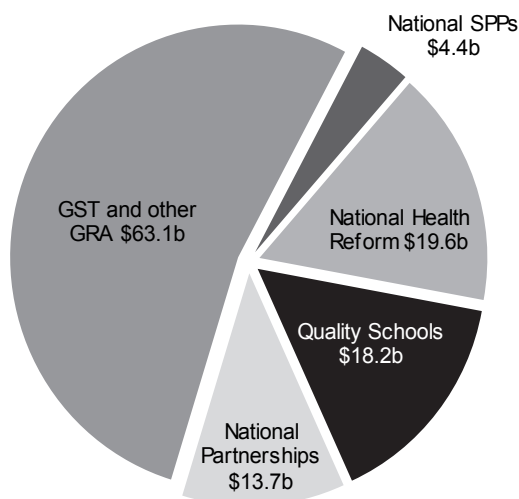
\$million	2016-17	2017-18	2018-19	2019-20	2020-21
National SPPs	4,309	4,375	2,468	1,721	1,563
National Health Reform funding(a)	18,460	19,563	20,639	21,769	22,677
Quality Schools funding(b)	17,095	18,218	19,266	20,457	21,707
National Housing and Homelessness funding	-	-	1,500	1,525	1,548
National Partnership payments(c)	15,967	13,742	14,593	10,834	8,704
GST entitlement	59,240	62,340	65,590	67,670	71,540
Other general revenue assistance	736	731	670	655	662
Total	115,807	118,968	124,725	124,631	128,401
Per cent change from previous year	-	2.7	4.8	0.1	3.0
Per cent of GDP	6.6	6.5	6.6	6.3	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.

Chart 1.2: Total Commonwealth payments to the States, 2017-18^(a)



(a) Total Commonwealth payments to the States in 2017-18 are \$119.0b.

Table 1.3 provides information on the Commonwealth's financial contributions to State expenditure in key sectors in 2015-16. It shows that Commonwealth financial assistance in 2015-16 effectively supported 45 per cent of the States' expenditure.

Table 1.3: 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
2015-16				
Education	18,027	12,337	58,229	52.1
Health	17,844	15,268	67,600	49.0
Social security and welfare	2,691	4,816	18,385	40.8
Housing and community amenities	2,106	2,624	10,657	44.4
Agriculture, forestry and fishing	263	717	2,600	37.7
Transport and communication	5,495	5,192	22,415	47.7
Other functions(b)	1,753	17,061	57,351	32.8
Payments for specific purposes	48,180			
General revenue assistance		58,016		
Total			237,237	44.8

(a) Functional data is consistent with Government Financial Statistics and sourced from the Australian Bureau of Statistics and the Commonwealth's 2015-16 Final Budget Outcome.

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

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

MEASURES AFFECTING PAYMENTS TO THE STATES

Table 1.4 lists all measures in the 2017-18 Budget that impact payments to the States. Details of the measures are available in Budget Paper No. 2, *Budget Measures*, arranged by portfolio. Information on the payments affected is available in Parts 2 and 3 of this Budget Paper.

Table 1.4: Measures affecting payments to the States

Payment	Section of Budget Paper 3	Measure title	Section of Budget Paper 2
Hospital Services	Part 2 — Health	Immigration Reform — changes to Australia's visa processing arrangements	Expenses — Immigration and Border Protection
Hospital Services	Part 2 — Health	Improved Access to Health Care for Australian Participants of British Nuclear Tests And Veterans of the British Commonwealth Occupation Force	Expenses — Veterans' Affairs
Expansion of the BreastScreen Australia program	Part 2 — Health	BreastScreen Australia Program — additional support	Expenses — Health
Mersey Community Hospital	Part 2 — Health	Support for Health Services in Tasmania	Expenses — Health
Victorian cytology services	Part 2 — Health	Cancer Screening — Victorian Cytology Service — continuation	Expenses — Health
Essential vaccines	Part 2 — Health	Supporting No Jab No Pay — National Immunisation Program — expansion	Expenses — Health
Proton beam facility	Part 2 — Health	Proton Beam Facility South Australia	Expenses — Health
Rheumatic Fever Strategy	Part 2 — Health	National Partnership Agreement on Rheumatic Fever Strategy — continuation and expansion	Expenses — Health
Suicide prevention	Part 2 — Health	Prioritising Mental Health — suicide prevention support programs	Expenses — Health
Quality Schools funding	Part 2 — Education	Quality Schools — true needs-based funding for Australia's schools	Expenses — Education and Training
Schools Security program	Part 2 — Education	Schools Security Programme— extension	Expenses — Attorney General's
Universal access to early childhood education	Part 2 — Education	National Partnership Agreement on Universal Access to Early Childhood Education — extension	Expenses — Education and Training
Skilling Australians Fund	Part 2 — Skills and workforce development	<i>Skilling Australians Fund</i>	Expenses — Education and Training
Skilling Australians Fund	Part 2 — Skills and workforce development	<i>Skilling Australians Fund</i> levy	Revenue — Immigration and Border Protection
Transition to NDIS in Western Australia	Part 2 — Community Services	National Disability Insurance Scheme — finalisation of transition arrangements	Expenses — Social Services

Payment	Section of Budget Paper 3	Measure title	Section of Budget Paper 2
Social impact investments	Part 2 — Community services	Social Impact Investing Market — trials	Expenses — Social Services
National Housing and Homelessness agreement	Part 2 — Affordable housing	Reducing Pressure on Housing Affordability — reform of the National Affordable Housing Agreement	Expenses — Social Services
Infrastructure Investment Program	Part 2 — Infrastructure	Infrastructure Investment Programme — National Rail Program	Expenses — Infrastructure and Regional Development
Infrastructure Investment Program	Part 2 — Infrastructure	Infrastructure Investment Programme — Victorian Infrastructure Investments	Expenses — Infrastructure and Regional Development
Infrastructure Investment Program	Part 2 — Infrastructure	Infrastructure Investment Programme — new investments	Expenses — Infrastructure and Regional Development
Infrastructure Investment Program	Part 2 — Infrastructure	Infrastructure Investment Programme — offsets	Expenses — Infrastructure and Regional Development
Asset Recycling — Energy Infrastructure	Part 2 — Infrastructure	Energy for the Future — bilateral Asset Recycling agreement with South Australia	Expenses — Treasury
Infrastructure projects in Western Australia	Part 2 — Infrastructure	WA Infrastructure and GST Top-Up payment	Expenses — Treasury
National fire danger rating system	Part 2 — Environment	National Fire Danger Rating System	Expenses — Attorney-General
Natural disaster resilience	Part 2 — Environment	Disaster Resilience Program — extension	Expenses — Attorney-General
South Australia for local roads component	Part 2 — Other	Supplementary Local Roads Funding for South Australia	Expenses — Infrastructure and Regional Development
Legal assistance services	Part 2 — Other	Legal Assistance Services — additional funding	Expenses — Attorney-General
Regulatory Reform	Part 2 — Other	National Partnership on Regulatory Reform — establishment	Expenses — Treasury
Tourism demand-driver infrastructure recovery package	Part 2 — Other	Queensland Tourism Cyclone Debbie Recovery Package	Expenses — Foreign Affairs and Trade
GST entitlement	Part 3 — GST Payments	Aligning the tax treatment of roll your own tobacco and cigarettes	Revenue — Treasury
GST entitlement	Part 3 — GST Payments	Better targeting skilled visas	Revenue — Treasury
GST entitlement	Part 3 — GST Payments	GST — removing the double taxation of digital currency	Revenue — Treasury
GST entitlement	Part 3 — GST Payments	Indirect Tax Concession Scheme — diplomatic and consular concessions	Revenue — Treasury
GST entitlement	Part 3 — GST Payments	Tax Integrity Package — Black Economy Taskforce: extension of the taxable payments reporting system (TPRS) to contractors in the courier and cleaning industries	Revenue — Treasury

Payment	Section of Budget Paper 3	Measure title	Section of Budget Paper 2
GST entitlement	Part 3 — GST Payments	Tax Integrity Package — Black Economy Taskforce: one year extension of funding for ATO audit and compliance activities	Revenue — Treasury
GST entitlement	Part 3 — GST Payments	Tax Integrity Package — Black Economy Taskforce: prohibition on sales suppression technology and software	Revenue — Treasury
GST entitlement	Part 3 — GST Payments	Tax Integrity Package — combating fraud in the precious metals industry	Revenue — Treasury
GST entitlement	Part 3 — GST Payments	Tax Integrity Package — improving the integrity of GST on property transactions	Revenue — Treasury
GST entitlement	Part 3 — GST Payments	Temporary sponsored parent visa — establishment	Revenue — Treasury